



Commonwealth of Kentucky Finance and Administration Cabinet

Steven L. Beshear, *Governor*
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Finance and Administration Cabinet Accomplishments 2012

CABINET OVERVIEW: The Finance and Administration Cabinet is the primary support agency for state government and provides centralized services ranging from fiscal management to procurement to state tax law enforcement. Other services include information technology, facility maintenance and construction, fleet management, and equal opportunity contract compliance. The Finance Cabinet also helps manage the Smart Government Initiative (SGI) that Gov. Beshear announced in 2010. He tasked the Finance Cabinet with oversight and implementation of recommendations made by various workgroups. More efficient and effective government operations in the areas of transportation, asset management, procurement, postal services and information technology continue to be tracked and implemented and yield recurring savings. To date, SGI has saved more than \$25 million.

We are proud to provide the following summary of cabinet accomplishments for 2012.



Commonwealth Office of Technology (COT)

IT INFRASTRUCTURE CONSOLIDATION: The IT Infrastructure Initiative (I.3), announced in September transferred operational control of all executive branch IT infrastructure services, equipment and employees to COT. The initiative will eliminate redundancies across agencies and take immediate actions to improve efficiency and service delivery of IT infrastructure services. In addition to cost savings, these actions will significantly reduce the risk of system failure, privacy or security breach. These changes also will position the commonwealth to take advantage of emerging technologies and sourcing alternatives for IT services in the future. Streamlining IT service delivery is estimated to yield annual net savings ranging from \$16.7 to \$27.8 million upon full implementation.

MANAGED PRINT SERVICES (MPS): A new contract for this innovative service was awarded to Xerox in November. The goal is to optimize equipment to ensure the state has the right amount of print devices and that those devices are physically situated to satisfy business needs. The contract will allow agencies to update their equipment with more efficient technology while reducing their carbon footprint and IT infrastructure costs. Managed print services savings are estimated at \$19 million over five years.

ALTERNATE DATA CENTER (ADC): The commonwealth entered into a contract with Cyrus One in 2012 to establish an ADC. The ADC improves the commonwealth's ability to provide uninterrupted service in the event of a disaster or other interruption of services at the Commonwealth Data Center (CDC) in Frankfort. The added security and ability to provide enhanced services during emergency situations allows peace of mind to COT's customer agencies and to the citizens of Kentucky.

CDC UPGRADES: COT and Facilities continued upgrades in 2012 to enhance operations and security at the Commonwealth Data Center (CDC). The Computer Room Air Handling Units (CRAH's) on the 3rd and 4th floors were replaced, more than doubling available cooling and allowing for maintenance without downtime. Temperature monitoring sensors were installed on the 3rd and 4th floors that tie into the Main Console and CAPCON (Facilities office). Sensors at critical equipment (Core Switches, z/OS, storage, etc.) will automatically alert if there are temperature variations. The air sampling system for fire alarm detection was upgraded. A TrueAlert NEWS emergency warning system was installed and National Weather System alerts are now broadcast throughout the building over the alarm speaker system.

KEWS: Kentucky launched a new \$46.5-million high-speed digital public safety network in March 2012 capable of carrying voice, data and video traffic. Originally launched in April 1979 with more than 140 broadcast towers, the upgraded Kentucky

Emergency Warning System (KEWS) now provides a digital, secure, survivable and redundant communications network that plays a vital role in the protection of life and property in the Commonwealth. The network, used by many law enforcement and emergency responders, is one of only a few in the nation wholly owned and managed by a state that can boast data speeds as high as 150mb per-second. Sophisticated tools also allow technicians to remotely monitor the stability of all components of the network in real time.

SIP TELEPHONY: COT implemented a new SIP based Enterprise VoIP Telephone system that provides advanced communications features including presence status (user availability at a glance), instant messaging, ad hoc video conferencing, audio/web conferencing, and mobile phone integration. It will also provide cost reduction with respect to the Commonwealth's connection to the public telephone network. The new enterprise phone system is redundant, and has components installed at both the Commonwealth Data Center (CDC) and the COT alternate data center (ADC). This is the first time that the Commonwealth has enjoyed a geographically redundant phone system.

Office of Broadband Outreach and Development (OBOD)

BROADBAND: The first ever Broadband e-Strategy Report was completed in mid 2012. This report analyzed data collected from more than 6,000 surveys of interested citizens, businesses and organizations from around Kentucky. This report provided detailed information regarding broadband's use in five statewide regions. In October 2012 OBOD staff travelled to the five regions across the state for an initial planning kickoff meeting in each region. These brought local stakeholders together to promote awareness and encourage broadband build out in a grassroots effort.

In late 2012 OBOD signed an agreement with Community Action Kentucky (CAK) to donate used state computers to 23 CAK locations throughout the state. Twenty-seven computers were installed in Jackson and Mayfield CAK Offices, which the public can access for free.

Kentucky Business One-Stop

KBOS: With additional funding allocated in 2012, KBOS Program Governance and Executive Governance teams were established. All four agencies involved with the portal's development (Secretary of State, Cabinet for Economic Development, Finance and Administration Cabinet, and Commonwealth Office of Technology) signed a memorandum of agreement outlining the project scope and budget. IT and programmatic experts began finalization of the One Stop Architecture – solution, data, system. As part of KBOS, COT began working with CHFS to jointly purchase tools for the One Stop and the Health Benefits Exchange (HBE) project.

Office of the Controller

25 YEARS OF EXCELLENCE: For the 25th consecutive year, Office of the Controller has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA). This is an important factor that bond rating agencies use to evaluate the credit worthiness of a governmental unit. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

eMARS 3.9 UPGRADE: Substantial enhancements and new functionality through a new user interface and hardware upgrades were implemented in 2012 with limited resources.

MAXIMIZE DATA ACCESS: The Enterprise Business Intelligence (EBI) Committee, a multi-agency consortium formed in 2012, is tasked with developing a single portal (entry point) where a user can access multiple business intelligence applications in one place. This will maximize and leverage the Commonwealth's existing business intelligence resources, thereby, reducing unnecessary future spending. It will also allow users to access multiple sources of data (i.e. eMARS, FAS, KBUD, KHRIS, etc...) from a single entry point/web site.

STATE FIRE & TORNADO FUND SELF INSURANCE (the FUND): During 2012 the Commonwealth incurred 241 property loss claims on 428 properties. The Fund paid out in excess of \$9.4 million to state agencies and universities for property losses due to wind, fire, hail and water damages. The fund insures nearly \$18.1 billion in Commonwealth owned properties and contents. As such it also carries excess insurance coverage of \$1.25 billion per occurrence and is directly responsible for insuring up to the first \$500,000 per event on all property losses.

STATE VEHICLE SELF INSURANCE: The Kentucky Self-Insured Auto Program (KSAP), a lower-cost, self-insurance plan for the state's vehicle fleet, is managed by the controller's office. KSAP provided a 15% state-wide savings in vehicle insurance premiums for FY 2013, saving the Commonwealth approximately \$600,000 in vehicle insurance premiums, compared to FY 2012. Resulting from an SGI workgroup, the KSAP Program has positioned the Commonwealth to provide more comprehensive vehicle insurance coverage.

Office of Equal Employment Opportunity & Contract Compliance

KENTUCKY MINORITY AND WOMEN BUSINESS ENTERPRISE (MWBE) CERTIFICATION: In 2012, the cabinet certified the 100th business owned by a MWBE. Of the 101 certified businesses there were 23 minority owned businesses (MBE), 17 minority woman owned businesses (MWBE) and 61 woman owned businesses (WBE). Combined, these businesses employed 1,000 full-time employees in the Commonwealth of Kentucky.

MWBE certification encourages growth among Kentucky businesses owned by women and minorities and to assist those businesses in locating and obtaining additional business opportunities. This certification also allows MWBEs to compete for work in states outside of Kentucky that require certification by a statewide body.

Department for Facilities and Support Services (DFSS)

ENERGY MANAGEMENT LEADER: The Commonwealth Energy Management and Control System (CEMCS) won the National Association of State Facilities Administrators' (NASFA) 2012 Innovations Award. The CEMCS pilot, completed in 2012, estimates ongoing annual savings of \$600,000. CEMCS is an enterprise software system designed to monitor, analyze, control, and optimize energy utilization in 43 participating public state buildings at 23 sites across the state. Since implementation in 2011, CEMCS has saved approximately \$1.55 million, vastly surpassing originally projected savings.

HISTORIC FACILITIES RENOVATIONS: 2012 was a year for renovating and updating some of Kentucky's most cherished properties on or near the Capitol Campus. A capstone project was the total renovation of the Capitol Chapel, the first since its opening in 1964. More than \$10,000 was privately raised and donated to help pay for the renovation. Other key projects included: Old State Capitol Windows Restoration; Executive Mansion- Long-term loan of Mildred Chandler portrait; Executive Mansion- Plaster renovations to State Dining Room and Stairway ceilings; New Capitol- Great Hall and Law Library ceiling painting and plaster repairs; Numerous LED lighting projects to increase energy efficiency in historic buildings; Old State Capitol- Roof replacement design contract awarded; New Capitol- Medal of Honor and Capitol Centennial plaques; Governor Beshear's portrait commissioned, painted and unveiled.

E-BAY & LIVE AUCTIONS: The Division of Surplus Property was aggressive in using e-Bay to increase the efficiency of its operations, which accounted for \$459,034 in sales. Surplus Properties conducted live auctions for the Transportation Cabinet (\$1,842,208), Fleet Management (\$392,750), and seven spot bid Sales (\$149,322). Surplus expanded its services and expertise to sell non-executive branch surplus items with the first outside entity being the Kentucky Higher Education Student Loan Corporation (KHESLC).

REAL PROPERTY: The Division of Real Property achieved annual savings of \$943,064.83 by renegotiating rental rates down by 5%. The division processed 88 new space requests from agencies and acquired approximately 3,060 acres. For the first time in 30+ years, Real Properties awarded a build-to-suit project at Bluegrass Station.

PROJECT MANAGEMENT: The Division of Engineering and Contract Administration currently has over \$450,000,000 in projects underway in various stages ranging from design to construction. Projects are for the Energy and Environment Cabinet, the Department of Corrections, Cabinet for Health and Family Services, Military Affairs, Veterans Affairs, and universities.

GREEN BANK: In 2012 the Green Bank loaned approximately \$6 million on three agency projects-- CHFS, Corrections and Education. The Green Bank currently has a balance of over \$1,400,000 available to be loaned out for additional energy savings projects. The Green Bank of Kentucky revolving loan program has been nationally recognized for its innovative use of ARRA funding to finance energy-efficient improvements in state buildings. Since the launch of the Green Bank of Kentucky in September 2009, the program has financed nine projects for a total of \$14.4 million, having disbursed all of its original ARRA funding. With the initial balance of funds loaned out, going forward all funds repaid into the Green Bank will be 'rolled over' to finance future energy-efficient improvements in other state buildings on an on-going basis.

Office of Financial Management (OFM)

BRIDGE CONNECTIONS: In one of the state's largest projects ever, OFM has central responsibility for the issuance, management, review and approval of all debt for the Kentucky portion of the Louisville-Southern Indiana Ohio River Bridges construction. The overall project is estimated at \$1.1 billion with the debt portion being approximately \$866 million. OFM will also assume responsibility for the coordination and monitoring of cash needs relative to debt activity, debt service payments and assist KYTC in monitoring the financing trust over the long-term.

NEW GAAP COMPLIANT POLICIES IMPLEMENTED: New accounting policies and procedures were implemented for calculating and distributing investment income of certain funds from state investment pools. These changes keep the commonwealth compliant with Generally Accepted Accounting Principles (GAAP) and the Securities and Exchange Commission (SEC) Rule 2a-7. Best of all these new procedures are easier to explain.

SAVINGS ACHIEVED THROUGH BOND REFUNDING: OFM took advantage of favorable borrowing in the market and refunded various agency bonds, allowing the state to realize \$11,745,328 in present value savings--\$5,765,411 for the State Property & Buildings Commission and \$5,979,917 for public universities.

MAJOR BOND PROJECTS: OFM funded more than \$370 million dollars of new money issues for the Turnpike Authority (\$218,200,000), Kentucky Infrastructure Authority (\$111,345,000), Morehead State University (\$5,060,000) and Western Kentucky University (\$35,860,000).

UNEMPLOYMENT INTEREST FUNDING OBTAINED: HB 495 allowed the unemployment compensation administration fund to authorize the Finance Cabinet secretary to obtain funding through commercially reasonable means to pay interest on federal unemployment loans and to pledge proceeds from a surcharge on contributing employers as security. OFM worked with Unemployment Insurance staff and obtained a favorable bank loan with JP Morgan Chase that will save Kentucky businesses the amount of federal unemployment tax they must pay.

Division of Fleet Management

100 BEST FLEETS: For the third consecutive year Kentucky's Fleet Management ranked in the 100 Best Public Sector Fleets with its ranking jumping from the mid 90's to 77. Fleet Management has a goal to be the number one ranked fleet and continues to see improvement in its ranking. More than 38,000 public sector fleets operate across the United States.

CLEAN FUELS COALITION: The Division of Fleet Management is an "Achieving" fleet with the Kentucky Clean Fuels Coalition. Fleet Management is also a pioneer member with the Clean Fuel Coalition. There are only 12 pioneer members in the state. The mission of the Kentucky Clean Fuels Coalition (KCFC) is to link providers and users of fuels across Kentucky to the best information and education available about clean energy technologies.

COMPRESSED NATURAL GAS (CNG): Kentucky is part of a 22 state coalition that is trying to spur the availability of CNG fueling stations and increase the use of CNG vehicles. This coalition is working towards a goal of reducing the dependency on foreign oil. CNG is currently about \$1.00 per gallon less than traditional gasoline and produces very low emissions.

Department of Revenue (DOR)

DISASTER RELIEF: In response to severe storms in February and March leading to twenty-three counties across the commonwealth being declared federal disaster areas, Gov. Beshear signed HB255 into law on April 14, 2012. This created the Disaster Relief Sales and Use Tax Refund program, which was quickly implemented in the Office of Sales & Excise Taxes. Prior to July 1, 26 applications totaling \$44,087.71 were received and processed. As of the end of December 2012, DOR had received 82 applications totaling \$169,207.19 in tax claims. Of those, 67 had been approved for \$149,515.63 in refunds.

VOLUNTARY USE TAX REACHES HIGHEST LEVEL: The number of returns that reported use tax increased 40% and the amount of use tax reported increased 44% (\$779,000 to \$1,119,000). This is the highest total of voluntarily reported use tax on record. DOR made calculating and reporting Kentucky use tax on retail purchases easier for residents by including a Use Tax Look-Up Table in the filing instructions.

TAX AMNESTY: On October 1, 2012, the Commonwealth kicked off the third amnesty program in its history. Nearly 170,000 delinquent taxpayers were identified and sent prefilled applications prior to October 1. As of Dec. 31 approximately 26,000 taxpayers had submitted applications, representing all 120 counties and all states. DOR received more than 33,000 phone calls regarding the program. Final collection figures will be determined at the end of FY13.

TAX REFORM COMMISSION: DOR played an important support role to the Governor's Blue Ribbon Commission on Tax Reform. Over the nine month period, DOR gathered information, analyzed proposals, testified, and wrote and edited recommendations for the commission's consideration.

e-FILING GROWS IN POPULARITY: Kentucky is in the top three states in e-file volume for individual returns with 84% of returns filed electronically for the 2012 tax filing season, up from 77%.

TECHNOLOGY UPGRADE: DOR began the process to upgrade its mainframe based collection system, which includes moving to a web-based product. With this upgrade, DOR will have greater flexibility in case management, workflow, and work assignment. It also has greater flexibility to automate certain collection processes.

Office of Procurement Services (OPS)

STATEWIDE PURCHASING: OPS buys everything from the mundane to the significant—all of which are important to the functioning of executive branch agencies. OPS ensures compliance with the Kentucky Model Procurement Code and works with state agencies on purchases that exceed their small purchase authority. In 2012 OPS re-negotiated contracts to realize \$7.2 million in savings. There were 303 new bid solicitations and RFPs issued in 2012 with expenditures off of OPS established contracts totaling \$34.6 million.

Kentucky Housing Corporation (KHC)

HOUSING ASSISTANCE: KHC provided mortgage loans to 1,407 Kentucky families. They helped 2,955 families avoid foreclosure and stay in their homes through the Unemployment Bridge program; provided rental assistance to more than 5,000 families; and continued working with communities throughout Kentucky to address the effect of the foreclosure crisis with \$7.5 million allocated by the Attorney General's office from the National Mortgage Settlement.

RECOVERY KENTUCKY: This model program helps Kentuckians recover from substance abuse, which often leads to homelessness. The effort, jointly supported by the Dept. for Local Government, the Dept. of Corrections and KHC, operates ten centers throughout the commonwealth. In 2012, the total number of program participants who have completed the program since its inception was 1,388 clients.

SCHOLAR HOUSE PROGRAM: Two new Scholar House developments opened in 2012 and two others began construction. The Scholar House Program provides single parents an opportunity to better themselves through attending college and having on-site day care.

DEBT COST REDUCTION: KHC significantly lowered its debt costs by refunding higher rate bonds. The millions in interest savings will result in more dollars being available for housing programs in future years.

Kentucky Higher Education Assistance Authority
Kentucky Higher Education Student Loan Corporation

MONEY FOR EDUCATION: In FY 2012, KHEAA disbursed more than \$197 million from grant, scholarship, and work-study programs, including \$92 million in need-based grants and \$95 million in KEES scholarships funded by Kentucky Lottery revenue. In total, 124,362 awards were made to 96,829 Kentucky students.

LOAN FORGIVENESS: 2012 marked the 10th anniversary of the “Best In” loan forgiveness program and 4,700 critical-need nurses, teachers and public service attorneys in Kentucky received the benefit this year. Nearly \$100 million of student loan debt has been forgiven since the beginning of the program.

FEDERAL GOVERNMENT PARTNER: KHESLC began servicing 100,000 direct loan accounts from the U.S. Department of Education. Preparations began for this new service more than a year in advance, including the hiring and training of 26 new employees and the implementation of more than 200 new security controls. During the 2012 regular session, KHESLC worked with the legislature to establish the Asset Resolution Corporation, the agency that collects payments on behalf of the federal government’s direct loan program.

HELP FOR DELINQUENT BORROWERS: KHESLC collected \$138.5 million on defaulted student loans in 2012. With KHEAA’s assistance, thousands of students were able to rehabilitate their loan status and return to financial health. KHEAA, in its role as a guarantor of Federal Family Education Loan Program (FFELP) loans, received requests from lenders and servicers to provide repayment assistance to 59,318 borrowers more than 60 days past due with \$941,693,430 in delinquent education loans. KHEAA began a new service in 2012 to assist colleges and universities in contacting and communicating with students who are at risk of defaulting on their student loans.